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Vice President

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October 11, 1996

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Federal Communications Commission
Office of Secretary

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: CC Docket No. 96-45, Universal Service

The attached letter and enclosures were sent today to Gina Keeney, Chief of the Common Carrier Bureau. Copies were also sent to Universal Service Joint Board Members, and Richard Metzger and Kathy Levitz of the Common Carrier Bureau. Please associate this material with the above referenced proceeding.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Alan Ciamporcero

Alan F. Ciamporcero
Vice President

1275 Pennsylvania Avenue, N.W., Suite 400
Washington, D.C. 20004
(202) 383-6416

PACIFIC TELESIS
Group-Washington

October 11, 1996

Ms. Gina Keeney, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW, Room 500
Washington, DC 20554

Dear Gina:

Earlier this week you were kind enough to meet with us on the subject of universal service. As you'll recall, we discussed how universal service fund money should be treated for separations purposes -- and we said we would give it some more thought and get back to you.

Attached is an approach we think would work. Any workable and successful universal service plan must be built on a strong state-federal consensus, implemented by Joint Board action. We'd be delighted to continue our discussions in this important area.

Sincerely,

Alan

cc: Universal Service Joint Board Members
Richard Metzger
Kathy Levitz
William Caton

Reconciling a National Universal Service Fund Solution with Current Separations Requirements

The Joint Board created by Section 254 of the Telecommunications Act should recommend that the FCC establish a National Universal Service Fund under the continuing supervision of the Joint Board:

<u>Step 1</u> - <u>Sizing the Fund</u>

Size the National Universal Service Fund using cost proxy modeling or other geographic cost data to allocate actual costs derived from ARMIS Reports and comparing against a selected price benchmark.

<u>Step 2</u> - <u>Assessing Carriers for Fund Payments</u>

Collect the National Universal Service Fund by assessing a surcharge on telecommunications services provided by all carriers and all services without regard to jurisdiction of the services. This will provide a *single* fund that will be allocated between state and federal jurisdictions to cover separated revenue requirements as shown in Step 3 and offset by price reductions on subsidizing services as shown in Step 4.

<u>Step 3</u> - <u>Allocating the Funds</u>

Payments from the Fund will be available to any carrier satisfying the COLR requirements and offering a service that complies with the Joint Board definition of universal service (price, quality and features). The funds received from the National Universal Service Fund by companies subject to separations process shall be allocated to satisfy state and federal revenue requirement as follows:

a. The Fund payment will be booked first to the portion of the Base Plant Factor that is not covered by the EUCL. Offsetting price reductions will be made to the CCL charge and other loop cost recovery mechanisms as described in Step 4.

b. The Fund payment will be booked second to the portion of Federal Switched Access that is in excess of the amount determined by the FCC to be the TSLRIC plus a portion of shared and common costs that represents the fair market price of switched access. Offsetting price reductions would be made as described in Step 4.

c. The remaining Fund payment will be booked as state revenues as directed by the respective state commission.

Step 4 - Initial Offsetting Price Reductions

Any payments in excess of the current payments a LEC receives from the Universal Service Fund shall result in a corresponding decrease in the prices of federal and state subsidizing products.

Removal of Federal Subsidy

a. The CCL and any remaining loop costs (including the LTS, TRS, Pay Telephone support) shall be removed from switched access.

b. An estimate of market-based switched access charges (TSLRIC plus a portion of shared and common costs) shall be made (pending access reform) and the difference between current switched access charges and the estimate of market-based switched access charges shall be reserved anticipating a reduction in switched access to that level in the access reform docket.[1]

Removal of State Subsidy

c. The remaining revenue shall be available to the state jurisdiction to reduce state services that are determined by the state to be providing subsidy.

State and Federal revenues would be identical immediately before and after implementation of the National Fund and would be consistent with current Part 36 separated revenue requirements. Recovery of the federal allocation of costs occurs as follows:

a. The federal/state separations of costs will allocate the loop costs and switch costs per part 36.

b. The separated non-traffic sensitive (loop) costs borne by the federal jurisdiction shall be recovered first by the existing EUCL. The remaining amounts would be recovered by funds received from the National Fund.

c. The separated switched traffic sensitive and special access costs borne by the federal jurisdiction shall be recovered first by the new switched and special access prices and then by funds received from the National Fund.

Competitive Local Exchange Carriers (CLECs) would have the same dollars available on a per customer basis as do the LECs. For the provision of basic service, they would be able to charge the customer the sum of the state basic exchange rate and the EUCL and receive the same compensation from the National Fund and any supplemental state fund. This is the same compensation that the LEC will receive for providing the same service.

[1] Reductions in special access prices, if appropriate, will also be held in reserve pending access reform.

Illustrative Funding from the National Universal Service Fund

Assume Costs in Excess of a $20/mo/line Benchmark Rate Equals $1B Subsidy Requirement	Revenue Requirement	National Fund Allocation	Offsetting Price Reductions
• Base Plant Factor (BPF)	$800M		
• EUCL recovery of BPF	$700M		
• Remaining BPF revenue requirement	$100M	$100M	($100M)
• Current switched access (excluding CCL)	$450M		
• Revenue at market-based switched access prices	$300M		
• Remaining switched access revenue requirement	$150M	$150M	($150M)
• State allocation of National Fund		$750M	($750M)
• Total National Fund recovery		$1B	($1B)